

Message Text

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SUBJECT: DRAFT OF AMBASSADOR'S MAY 18 WINNIPEG SPEECH

DEPT FOR ROUSE, EUR/CAN

1. WOULD GREATLY APPRECIATE RECEIVING COMMENTS BY C.O.B.
THURSDAY, MAY 12 ON FOLLOWING TEXT OF PROPOSED "REMARKS BY
AMBASSADOR THOMAS OSTROM ENDERS AT THE ANNUAL DINNER OF
THE WINNIPEG CHAMBER OF COMMERCE, 18 MAY 1977."

2. ONE OF THE GRAND ADAGES OF GOVERNMENT IS: "IF IT'S NOT
BUSTED, DON'T FIX IT."

3. SOMETIMES YOU'D THINK IT'S AN IDEA WHOSE TIME HAS BEEN
SLOW IN COMING -- PARTICULARLY AMONG US BUREAUCRATS -- BUT
THAT DOESN'T MAKE IT ANY LESS OF A GOOD RULE.

4. BUT NO ONE CAN COME OUT TO THE PRAIRIES -- ON YOUR SIDE
OF THE BORDER OR MINE -- AND TALK TO PEOPLE AND LOOK AT
THE FARMS (ESPECIALLY AFTER THAT GOOD RAIN LAST WEEK) AND
VISIT THE UNIVERSITIES AND THE GREAT CULTURAL CENTERS, AND
NOT THINK THAT THERE'S AN AWFUL LOT HERE THAT'S NOT BUSTED.

5. IN YOUR COUNTRY AND MINE PEOPLE HAVE ALWAYS LOOKED TO
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THEIR HEARTLANDS FOR A SENSE OF CONFIDENCE AND WELL-BEING
AND STABILITY. I THINK HISTORY SHOWS THAT THEY HAVE
ALWAYS FOUND IT, AS THEY DO NOW.

6. BUT THERE ARE SOME THINGS THAT ARE BUSTED IN MY
COUNTRY, WHICH JIMMY CARTER'S NEW ADMINISTRATION IS
TRYING TO FIX.

7. ONE IS THE WAY PEOPLE RELATE TO THEIR LEADERS. LOTS OF THINGS SUGGEST THAT THE DISTANCE HAS BEEN WIDENING IN RECENT YEARS: DECLINING PARTICIPATION IN ELECTIONS, WIDESPREAD TURNOFF ON POLITICS, RESENTMENT AT STRUCTURED,

BUREAUCRATIC SOLUTIONS TO HUMAN PROBLEMS, HOWEVER, WELL-MEANING.

8. JIMMY CARTER'S FIRST INSTINCT AS A PRESIDENT AND AS A POLITICIAN HAS BEEN TO TRY TO CLOSE THAT PSYCHOLOGICAL DISTANCE, EMPHASIZING IN ANY NUMBER OF WAYS -- THE WALK DOWN PENNSYLVANIA AVENUE, CARRYING HIS OWN BAGS, GIVING HIS TV TALK IN A SWEATER, AND SO ON -- THAT PRESIDENTS ARE LIKE THE REST OF US. HIS CRITICS CHARGE THAT IT'S ONLY COSMETICS, BUT PEOPLE LIKE IT AND YOU CAN'T GOVERN DIVERSE COUNTRIES LIKE YOURS AND MINE WITHOUT STYLE.

9. ANOTHER THING THAT NEEDS FIXING IN THE STATES IS THE PROFLIGACY WITH WHICH WE USE SOME RESOURCES. YOU DON'T HAVE TO BE A CLUB OF ROME IDEOLOGUE TO SEE THAT THE U.S. CAN'T GO ON GROWING WITHOUT A MAJOR EFFORT TO REORIENT ITS CONSUMPTION AND INCREASE ITS INVESTMENT. IT'S NOT JUST ENERGY, ALTHOUGH THAT'S THE TOUGHEST CHALLENGE. AVERAGE PRODUCTIVITY GAINS IN INDUSTRY HAVE BEEN UNIMPRESSIVE THIS DECADE AND WE ARE GOING TO HAVE TO THINK TO OUR INDUSTRIAL FUTURE.

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10. OVERCOMING LIMITS TO GROWTH IS NOTHING NEW TO THE PRAIRIES. OUT HERE IN MANITOBA NO FARM IS VERY FAR FROM THE FRONTIER OF CULTIVATION WHERE THE AVERAGE GROWING TIME IS TOO SHORT TO MAKE AGRICULTURE POSSIBLE. YET LOOK WHAT YOU HAVE BEEN ABLE TO DO BY SYSTEMATIC SEARCH FOR GRAINS THAT WILL GROW IN SHORTER AND SHORTER SEASONS AND YIELD A HIGHER AND HIGHER CROP. AND IT'S BY NO MEANS OVER YET.

11. THE CANADIAN PRAIRIES WERE ABLE TO BEAT THE LIMITS TO THEIR GROWTH BY TECHNOLOGICAL CHANGE. THAT TOO HAS BEEN THE TRADITIONAL AMERICAN ANSWER, AND I'VE NO DOUBT IT WILL BE THE ANSWER IN THE FUTURE IN MANY CASES.

12. BUT IT WON'T ALWAYS WORK. IN SOME CASES WE ARE GOING TO HAVE TO CUT INTO THE GROWTH OF CONSUMPTION, WASTING LESS OR USING SUBSTITUTES OR SIMPLY CONSUMING LESS. THAT'S CLEARLY WHAT'S NEEDED IN OIL AND GAS, AND THE NEW U.S. ADMINISTRATION HAS STAKED ITS PRESTIGE ON CONVINCING

AMERICANS TO DO IT.

13. THIS IS A NEW EXPERIENCE FOR AMERICANS -- AND AN AGONIZING ONE. FOR ALL OUR HISTORY WE HAVE BEEN USED TO ABUNDANCE. AND ABUNDANCE OFTEN EXEMPTED US FROM HAVING TO FACE UP TO PROBLEMS OF THE DISTRIBUTION OF INCOME AMONG CLASSES AND REGIONS. WE DIDN'T HAVE TO REDIVIDE THE PIE

BECAUSE GENERALLY WE COULD COUNT ON IT GROWING AND EVERY-

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BODY'S SLICE GETTING BIGGER. THAT'S ONE OF THE REASONS WE DIDN'T HAVE THE CLASS WARFARE AND REGIONAL STRUGGLE THAT HAVE ALWAYS BEDEVILLED EUROPE.

14. YET NOW IN THE STATES WE HAVE A FIRST CASE IN ENERGY WHERE WE CAN'T RELY ON TECHNOLOGY OR PRODUCTION GROWTH AND HAVE TO RESLICE THE PIE. IT'S AN ISSUE WHICH, IN JIM SCHLESINGER'S PHRASE, RISKS "BALKANIZING THE COUNTRY". WE ARE IN FOR A YEAR OF INTENSE POLITICAL STRUGGLE.

15. MUCH OF JIMMY CARTER'S APPROACH TO GOVERNMENT IS MOLDED BY THE APPREHENSION THAT WE MAY RUN INTO OTHER SUCH CASES, AND THAT SOCIETY WILL LOSE ITS FREEDOM OF CHOICE UNLESS YOU ANTICIPATE THEM. THAT IS WHY YOU FIND HIM GOING FOR A BALANCED BUDGET, FOR NEW FISCAL CONTROL DEVICES (ZERO-BASED BUDGETING), FOR FUNDAMENTAL REORGANIZATION OF GOVERNMENT STRUCTURES AND WELFARE.

16. THAT IS WHY YOU FIND HIM STRUCTURING HIS ECONOMIC POLICY AROUND THE NEED TO CONTROL INFLATION AND ENCOURAGE BUSINESS CONFIDENCE AND INVESTMENT. THAT IS WHY YOU FIND

HIM, FAR MORE THAN PRESIDENTS BEFORE HIM, GOING FOR VIGOROUS PROTECTION OF WATER AND LAND RESOURCES, CONVINCED THAT MANY PROPOSED USES OF THEM NO LONGER DEMONSTRATE A SURPLUS OF BENEFITS OVER COSTS, IF YOU FACTOR IN ENVIRON-
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MENT COSTS.

17. THESE ARE NOT NEW THOUGHTS FOR A LOT OF CANADIANS. INDEED IN MANY OF THESE AREAS -- CONCERN FOR THE PRESERVATION OF NATURE, CONCERN FOR LIMITED RESOURCE AVAILABILITY- YOU'VE BEEN OUT AHEAD OF US.

18. THIS GROWING NEED -- WHICH WE BOTH RECOGNIZE -- OF HUSBANDING WHAT IS GIVEN TO US GIVES A NEW URGENCY TO SOME OF THE OLDEST INSTINCTS IN CANADIAN/AMERICAN RELATIONS.

19. MANAGING WELL WHAT WE HAVE PHYSICALLY IN COMMON -- THE GREAT LAKES, THE AIR, COASTAL AND BOUNDARY WATERS -- IS CLEARLY ONE OF THOSE INSTINCTS. FOR THE FIRST TIME WE'VE BEEN ABLE TO GO BEYOND MERE REACTION -- NEGOTIATING THINGS OUT WHEN ONE SIDE PROPOSES ACTIONS DAMAGING TO THE OTHER -- AND TAKE JOINT ACTION TO IMPROVE THINGS ON BOTH SIDES OF THE BORDER. THAT'S WHAT THE GREAT LAKES WATER QUALITY AGREEMENT OF 1972 DID. NOW THE AGREEMENT'S UP FOR REVIEW, AND WE SHOULD BUILD ON IT NOT ONLY TO MAKE SURE WE STABILIZE THE LAKES, BUT MORE DECISIVELY TOWARDS RESTORATION OF WATER QUALITY.

20. ANOTHER INSTINCT IS TO USE TWO-WAY TRADE TO MAKE EACH OF THE ECONOMIES WORK BETTER THAN IT WOULD OTHERWISE. SOME ITEMS MAY NO LONGER BE AVAILABLE IN SUFFICIENT QUANTITY TO PERMIT TRADE AND MUST BE PHASED OUT IN AN ORDERLY MANNER. THIS IS THE CASE FOR OIL, AS IS NOW WIDELY UNDERSTOOD ON BOTH SIDES OF THE BORDER. BUT IN ALMOST ALL OTHER CASES BOTH COUNTRIES ARE CONVINCED THEY COULD BENEFIT BY MORE TRADE, NOT LESS.

21. A THIRD INSTINCT IS TO JOIN FORCES TO GET THE KIND OF WORLD-WIDE INSTITUTIONS THAT WILL ENABLE BOTH COUNTRIES TO PROSPER. THAT IS WHAT WE ARE DOING IN TRADE, GOING FOR LOWER TARIFFS AND BETTER MEANS OF PREVENTING ABUSES AND
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SETTLING GRIEVANCES. THAT IS WHAT WE ARE DOING IN NUCLEAR AFFAIRS, USING OUR POSITIONS AS MAJOR TECHNOLOGY AND FUEL

SUPPLIERS TO GAIN INTERNATIONAL ACCEPTANCE OF MUCH HIGHER STANDARDS OF SECURITY AGAINST PROLIFERATION. THAT IS WHAT WE ARE DOING IN THE ENVIRONMENT, USING OUR POSITION AS GREAT MARKETING NATIONS TO PIONEER CONTROL OF OCEAN POLLUTION.

22. THIS NEW URGENCY OF OLD CONCERNS AT A TIME WHEN THE PROSPECTS OF BOTH COUNTRIES SEEM MORE LIMITED -- OR AT LEAST HARDER TO ATTAIN -- EXPLAINS MUCH OF WHY WE ARE GETTING ON TOGETHER SO MUCH BETTER THESE DAYS THAN PREVIOUSLY. THERE IS SIMPLY TOO MUCH THAT WE CAN'T DO, OR CAN'T DO WELL, IF WE TRY TO DO IT ALONE.

23. THERE ARE THREE AREAS OF PARTICULAR IMPORTANCE TO THE HEARTLANDS OF CANADA AND THE UNITED STATES THAT I'D LIKE TO TALK ABOUT TONIGHT, WHERE A SPECIAL EFFORT IS REQUIRED TO USE WELL WHAT IS GIVEN TO US: WATER, GRAINS, AND LAKE TRANSPORT.

24. THE PROVISION OF WATER IS THE OLDEST CONCERN OF THE PLAINS. THE TRAGEDY OF THE DUST BOWL, AND MORE RECENT THREATS OF DROUGHT, SHOWED THAT WE COULD NEGLECT IT ONLY AT GREAT PERIL.

25. WATER IS A SHARED RESOURCE AT MANY POINTS ALONG THE BORDER. RIVERS CROSS AND RECROSS AND IN MANY PLACES THE

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TWO COUNTRIES SHARE THE SAME WATER SHED. WE RECOGNIZED EARLY -- IN 1909 -- IN JOINING IN THE BOUNDARY WATERS TREATY, THAT IT WOULD BE IN NO ONE'S INTEREST TO HAVE DECISIONS ON WATER TAKEN WITHOUT SENSITIVITY TO THE

INTERESTS OF PEOPLE ON THE OTHER SIDE OF THE BORDER. YET IT HAS BEEN A LONG STRUGGLE TO GIVE THAT CONCEPT ITS FULL MEANING. TWO EXAMPLES, ONE FAMILIAR TO ALL OF YOU AND THE OTHER PERHAPS LESS SO, SHOW THIS.

26. THE FIRST CASE IS THE GARRISON DIVERSION PROJECT. AS YOU KNOW, IT WAS BORN IN THE DEPRESSION AND THE DUST BOWL. THE RUINED FARMERS OF THE DAKOTAS DREAMED OF USING THE WATERS OF THE MISSOURI TO PROVIDE ASSURANCE AGAINST DROUGHT, AND A NEW FERTILITY, IN THEIR LANDS. ENORMOUS SUMS WERE REQUIRED, AND THE IDEA GAINED SUPPORT ONLY SLOWLY. MANY DAKOTANS HAVE WORKED ALL THEIR ADULT LIVES TO MAKE IT A REALITY.

27. BUT AS CONSTRUCTION FINALLY BEGAN, PEOPLE ON BOTH SIDES OF THE BORDER BEGAN TO ASK QUESTIONS ABOUT IT. THEY WONDERED HOW MUCH LAND WOULD BE DESTROYED IN RETURN FOR HOW MUCH IRRIGATED, WHETHER GREAT STRETCHES OF UNIQUE WET LANDS WOULD BE DESTROYED, AND WHETHER THE AGRICULTURAL RUN-OFF INTO SHARED WATERS WOULD NOT POLLUTE THEM. AS THE PROJECT DEVELOPED, CANADIANS BECAME CONCERNED ABOUT AN OVERLOADING

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OF MUNICIPAL WATER TREATMENT SYSTEMS, ALIEN FISH AND OTHER FOREIGN BIOTA, POLLUTANTS SUCH AS FERTILIZERS AND NATURAL SALTS LEACHED FROM IRRIGATED LAND, AND LOSS OF WILDLIFE. CANADA RAISED THE ISSUE UNDER THE BOUNDARY WATERS TREATY, ASKING THAT THE UNITED STATES RESPECT OUR JOINT OBLIGATION NOT TO TAKE ACTION DETERIORATING THE QUALITY OR QUANTITY OF WATER AVAILABLE TO THE OTHER COUNTRY. WE ASSURED YOU THAT WE WOULD RESPECT THAT OBLIGATION, AND TOGETHER WE ASKED THE INTERNATIONAL JOINT COMMISSION TO IDENTIFY POTENTIAL DAMAGE TO CANADA AND THE MEANS BY WHICH IT COULD BE OVERCOME.

28. AS YOU KNOW, ONE OF THE FIRST ACTS OF JIMMY CARTER ON ENTERING OFFICE WAS TO ORDER A REVIEW OF ALL WATER DEVELOPMENT PROJECTS IN THE UNITED STATES. IN THE CASE OF THE GARRISON, HE FOUND THE COST IN LAND LOST NEARLY EQUALLY THE BENEFIT IN LAND GAINED. HE HAS NOW ORDERED THE PROJECT TO GO AHEAD, BUT ON A LIMITED SCALE ONLY, WITH IRRIGATION OF THE SOURIS LOOP -- THE ASPECT OF THE PROSPECT OF MOST IMMEDIATE IMPACT ON CANADA -- ENTIRELY REMOVED. THE REMAINING PLAN HAS A MUCH BETTER BENEFIT/COST RATIO.

29. THE PROCESS IS NOT COMPLETE. CONGRESS MUST NOW ACT. THE FIRST CONGRESSIONAL COMMITTEE TO CONSIDER THE PROJECT LEFT MONEY FOR THE SOURIS LOOP IN THE BILL, BUT ON CONDITION THAT NO ELEMENT OF THE PROJECT AFFECTING CANADA

BE FUNDED UNTIL THE IJC REPORT IS RECEIVED AND EVALUATED.
OTHER CONGRESSIONAL COMMITTEES MAY TAKE DIFFERENT VIEWS,
AND THUS THE FINAL STATUS OF THE PROJECT MAY NOT BE KNOWN
FOR SOME TIME. BUT AS THE PRESIDENT EMPHASIZED IN
REPORTING HIS DECISION ON THE GARRISON PROJECT, WE WILL
RESPECT OUR OBLIGATIONS UNDER THE BOUNDARY WATERS TREATY.

30. I THINK YOU KNOW WHAT A STAKE MANY OF YOUR DAKOTAN
NEIGHBORS HAVE IN THE GARRISON, AND HOW DIFFICULT IT IS
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FOR THEM TO ABANDON LONG-TIME HOPES. AS A MORE SCALED-
DOWN PROJECT EMERGES, WITH CONCERN FOR CROSS-BORDER
EFFECTS PROPERLY FACTORED IN, WE HOPE THAT CANADIANS WILL
TAKE A SYMPATHETIC VIEW.

31. I UNDERSTAND THAT IMPORTANT INTERESTS ARE ALSO INVOLVED,
ON THE CANADIAN SIDE, IN THE SECOND PROJECT I WOULD LIKE
TO DISCUSS: THE POPLAR RIVER THERMAL POWER GENERATOR
PROJECT IN SASKATCHEWAN. AMERICANS WORRY THAT SULPHUR AND
NITROGEN DIOXIDE FROM THAT PLANT WILL DAMAGE FARM AND
RANCH LANDS. THEY FEAR WATER POLLUTION ALSO, AND ABOVE ALL
AN INEQUITABLE APPORTIONMENT OF AVAILABLE WATER SUPPLIES.
ALTERED WATER FLOWS WOULD AFFECT THE SIOUX AND THE ASSINI-
BOIN, WHO BOTH HOLD TREATY RIGHTS TO WATER IN THEIR
RESERVATIONS.

32. CANADA HAS GIVEN US ASSURANCES THAT IT WILL RESPECT
ITS OBLIGATIONS UNDER THE BOUNDARY WATERS TREATY.
IMPORTANT CHANGES IN THE PROJECT WILL BE REQUIRED TO MAKE
THOSE ASSURANCES GOOD, AND WE HAVE CONFIDENCE THAT THEY
WILL BE.

33. AS THESE TWO CASES SHOW, IT IS IN NOBODY'S INTEREST TO
LAUNCH A LARGE DEVELOPMENT PROJECT WITH POTENTIAL CROSS-

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BORDER IMPLICATIONS WITHOUT CONSULTATION IN ADVANCE WITH THE OTHER SIDE. HAD SUCH CONSULTATION OCCURRED IN THE TWO CASES I CITE, MAJOR COSTS FOR MODIFICATION AND DISAPPOINTED HOPES COULD HAVE BEEN AVOIDED. THAT IS WHY BOTH CANADA AND THE UNITED STATES NOW RECOGNIZE A COMMITMENT TO UNDERTAKE CONSULTATIONS WITH EACH OTHER IN ADVANCE OF ACTION THAT WOULD CAUSE POLLUTION.

34. LET ME TURN TO GRAINS. AS SO OFTEN, WE HAVE A COMMON HISTORY. MOST OF THE WHEATS NOW PLANTED IN MANITOBA, SASKATCHEWAN, THE DAKOTAS AND MONTANA COME FROM A SINGLE ANCESTOR: RED FIFE ESTABLISHED IN THE MID-19TH CENTURY BY A WHEAT GROWER IN ONTARIO. WITH WHEATS LIKE THAT, WITH ENDLESS HARD WORK AND SAVING AND CAREFUL PLANNING, FARMERS ON BOTH SIDES OF THE BORDER HAVE TURNED THESE HEARTLANDS OF OURS INTO THE GREATEST GRANARY IN THE WORLD.

35. YET ONE PROBLEM HAS BEEN BEYOND THEIR ABILITY TO SOLVE ALONE: HOW TO ASSURE THE STABILITY OF THE MARKET SO THAT IMPORTERS HAVE ACCESS TO NORMAL SUPPLIES EVEN IN TIMES OF SHORTAGE, AND PRODUCERS RECEIVE NORMAL PRICES EVEN IN TIMES OF SURPLUS.

36. WE'VE BEEN ON A ROLLER COASTER. TWO DECADES AGO WE BOTH HAD GRAIN RUNNING OUT OF OUR EARS. IT TOOK A SUS-
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TAINED EFFORT AT MARKET DEVELOPMENT, ACREAGE REDUCTION AND STOCK PLANNING TO BRING THE MARKET BACK INTO BALANCE. THEN IN THE EARLY 1970'S BAD WEATHER IN THE SOVIET UNION, FALLING RICE PRODUCTION IN ASIA, AND A VARIETY OF OTHER FACTORS COMBINED TO PRODUCE WORLDWIDE SHORTAGE.

37. NOW STOCKS ARE BUILDING RAPIDLY AGAIN IN BOTH CANADA AND THE UNITED STATES, WHICH TOGETHER ACCOUNT FOR THREE-QUARTERS OF WORLD EXPORTS. THIS SUMMER STOCKS OF WHEAT IN NORTH AMERICA WILL BE MORE THAN A YEAR'S COMBINED EXPORTS. MEANWHILE, WHEAT PRICES HAVE FALLEN TO HALF OF THEIR PEAK LEVEL, WHILE RISING COSTS OF INPUTS HAVE SIGNIFICANTLY INCREASED THE COST OF PRODUCTION.

38. NOBODY CAN BE SURE WHEN THE MARKET WILL FIRM OR WHEN THE NEXT SUPPLY CRUNCH WILL COME. BUT THERE IS PLENTY OF EVIDENCE TO SUGGEST THAT PERIODS OF SHORTAGE WILL BE JUST AS FREQUENT OR MORE FREQUENT THAN IN THE PAST. CURRENT FORECASTS SUGGEST THAT THERE IS A LONG-TERM DETERIORATION IN SOVIET WEATHER. AND RISING POPULATION AND INCOMES IN DEVELOPING COUNTRIES ARE PRODUCING A MASSIVE LONG-TERM INCREASE IN GRAIN DEMAND, THAT MUST BE SATISFIED LARGELY FROM NORTH AMERICA.

39. UP TO THE PRESENT, CANADA AND THE UNITED STATES HAVE TAKEN THE BIGGEST PART OF THE BURDEN OF ADJUSTMENT AT BOTH THE TOP AND THE BOTTOM OF THE MARKET. WHEN THERE HAS BEEN A CRUNCH WE HAVE PROVEN NEARLY ALWAYS TO BE RELIABLE SUPPLIERS, HONORING OUR GRAIN EXPORT CONTRACTS EVEN THOUGH THE RESULT HAS BEEN HIGH PRICES TO CONSUMERS AND SOMETIMES LIVESTOCK LIQUIDATION IN OUR OWN COUNTRIES. IN TIMES OF SURPLUS WE HAVE ONE WAY OR ANOTHER FOOTED THE BILL FOR THE STOCKS THAT MUST INEVITABLY BE HELD, WHILE OUR FARMERS TOOK IN THEIR BELTS AND LEARNED TO LIVE WITH LOW PRICES.

40. BUT IT IS NOT ONLY A QUESTION OF EQUITY. THERE IS THE UNCLASSIFIED

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LARGER QUESTION. IS A WIDELY FLUCTUATING MARKET REALLY AN EFFICIENT WAY TO RUN A CRITICAL SECTOR IN THE WORLD ECONOMY AT A TIME WHEN WATER, ARABLE LAND AND CAPITAL ARE ALL IN INCREASINGLY SHORT SUPPLY? AND DOES IT REALLY MAKE SENSE TO EXPOSE DEVELOPING COUNTRIES TO BEING CROWDED OUT OF GRAIN MARKETS WHEN PRICES GO THROUGH THE CEILING?

41. BOTH YOUR GOVERNMENT AND OUR NEW ADMINISTRATION THINK NOT.

42. THERE ARE SOME ACTIONS THAT WE CAN TAKE BETWEEN US. WE BOTH ESTABLISH DOMESTIC FLOOR PRICES -- YOUR INITIAL PAYMENT AND OUR LOAN RATE. IF THESE LEVELS ARE SET IN RELATIVE HARMONY, WE CAN COMPETE ON AN EQUAL FOOTING. IF THEY ARE NOT, THE DISADVANTAGED PARTY CARRIES AN UNDUE PROPORTION OF THE INVENTORY AND LOSES ITS WORLD MARKET SHARE. OR IT MAY BE FORCED TO SUBSIDIZE EXPORTS. IN EITHER CASE THE RESULT IS A LARGE BUDGETARY EXPENDITURE, WHICH BOTH OF US ARE ANXIOUS TO AVOID.

43. OTTO LANG AND BOB BERGLAND DISCUSSED THIS ISSUE IN WASHINGTON IN FEBRUARY, AND WE BELIEVE THAT CURRENT SUPPORT PRICES PROVIDE FOR AN EQUITABLE DISTRIBUTION OF MARKETS AND INVENTORIES. HOWEVER, PRESERVATION OF A BALANCE WILL REQUIRE CONSTANT ATTENTION AND ADJUSTMENTS MAY HAVE TO BE MADE

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44. BUT EFFECTIVE STABILIZATION OF THE MARKET WILL REQUIRE PARTICIPATION OF THE OTHER EXPORTERS AND ABOVE ALL OF IMPORTERS. THERE MUST BE A MECHANISM TO PREVENT PRICES FROM FALLING TO DISTRESS LEVELS, WHILE ASSURING IMPORTERS AS RELIABLY AS POSSIBLE OF ACCESS TO SUPPLIES DURING PERIODS OF SHORTAGE. THE KEY LINKING THE TWO SIDES OF THE MARKET WILL BE THE WAY STOCKS ARE HANDLED, AND THE DEGREE TO WHICH STOCKS ARE FINANCED BY ALL MARKET PARTICIPANTS AND NOT JUST PRODUCERS.

45. ALL OF THIS HAS BEEN TRIED BEFORE, AND THE EFFORT CAME TO GRIEF WHEN SUPPLIES BUILT UP IN THE MARKET AND CHANGED THE RELATIONSHIP BETWEEN DIFFERENT QUALITIES OF WHEAT. BUT NOW THERE IS A NEW ELEMENT. WE KNOW THERE CAN AND WILL BE SUPPLY CRUNCHES AS WELL AS GLUTS.

46. CANADA AND THE UNITED STATES WILL MAKE A MAJOR NEW EFFORT IN THE INTERNATIONAL WHEAT COUNCIL IN LONDON AND IN THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA THIS SUMMER TO FIND ANSWERS TO THESE QUESTIONS. BOTH OF US WANT TO MAINTAIN AN OPEN INTERNATIONAL MARKET WITH MANY BUYERS AND SELLERS, RATHER THAN SEE IT EVOLVE TOWARDS A CARTEL IN WHICH DOMINANT SUPPLIERS COULD SET THE PRICE. BUT NEITHER OF US WANTS TO SEE PROGRAMS OF SUPPORT RESULT IN AN EXCESSIVE COST TO OUR TREASURIES NOR IN AN
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EXCLUSIVE BURDEN OF ADJUSTMENT TO OUR ECONOMIES. THE CARTER ADMINISTRATION HAS STATED CATEGORICALLY THAT IT WILL NOT RETURN TO THE USE OF EXPORT SUBSIDIES. IT IS JUST AS DETERMINED NOT TO GET BACK INTO THE BUSINESS OF OWNING AND STORING GRAIN AS A GOVERNMENT.

47. SO WE MUST LOOK TO A BROADER ARRANGEMENT THAT IS WORLDWIDE IN SCOPE. THIS WILL BE ONE OF THE MAJOR CHALLENGES TO INTERNATIONAL DIPLOMACY IN THE COMING FEW YEARS. BUT CANADA AND THE UNITED STATES HAVE GREAT STRENGTH IN THIS FIELD. IT'S A CLASSIC CASE OF WHERE WE SHOULD HAVE ENOUGH CHIPS TO SUCCEED, BY ACTING TOGETHER.

48. LET ME TURN NOW TO THE ST. LAWRENCE SEAWAY, A MAJOR LINK BETWEEN THE PLAINS AND WORLD MARKETS.

49. WE BOTH HAVE AN INTEREST IN ITS WELL-BEING, IN MAXIMIZING ITS UTILIZATION AND IN THE SOUNDNESS OF ITS FINANCIAL ARRANGEMENTS. WHILE THE SEAWAY IS USUALLY DEFINED AS THE LOCKS ON THE UPPER ST. LAWRENCE RIVER PLUS THE WELLAND CANAL, AS A PRACTICAL MATTER THE SEAWAY SYSTEM ALSO INCLUDES THE SAULT LOCKS AND THE CONNECTING CHANNELS OF THE UPPER LAKES. IT IS THE TOTAL SYSTEM OF THE GREAT LAKES AS A CORRIDOR TO THE ATLANTIC WHICH IS OF GREATEST INTEREST TO THE PLAINS.

50. WHEN THE SEAWAY WAS CONSTRUCTED IN THE 1950'S, THE UNITED STATES DEPARTED FROM ITS POLICY OF NOT LEVYING USER CHARGES ON INLAND WATERWAYS; THE NEW LOCKS OF THE SEAWAY WERE PUT IN A SELF-SUPPORTING BASIS. CANADA ALSO PUT ITS LOCKS ON THE UPPER ST. LAWRENCE ON A SELF-SUPPORTING BASIS, BUT CHOSE TO MAINTAIN TOLL-FREE OPERATION OF THE WELLAND CANAL, AS WE DID ON THE SAULT LOCKS AND CONNECTING CHANNELS OF THE UPPER LAKES.

51. IN RECENT YEARS THE SEAWAY HAS BEEN RUNNING INTO
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RISING COSTS. THIS FACT, COMBINED WITH A RECENT CANADIAN GOVERNMENT DECISION TO APPLY THE USER PAY PRINCIPLE TO THE WELLAND CANAL, LED TO A REQUEST BY THE CANADIAN GOVERNMENT THIS YEAR FOR NEGOTIATIONS FOR A SHARP INCREASE IN TOLLS ON THE SEAWAY. THE REQUEST COINCIDED WITH A PROSPECTIVE NEED FOR MORE REVENUE ON THE U.S. SIDE, AND THUS NEGOTIATIONS HAVE BEGUN.

52. OUR DISCUSSIONS HAVE NOT YET REACHED THE POINT OF

CONSIDERING DETAILED TOLL INCREASE PROPOSALS. THE VARIOUS OPTIONS WILL REQUIRE CAREFUL ANALYSIS. ON THE AMERICAN SIDE, WE ARE CONCERNED, FOR EXAMPLE, THAT A SUBSTANTIAL INCREASE UNDER THE EXISTING TARIFF MECHANISM WHICH DIFFERENTIATES ONLY BETWEEN BULK AND GENERAL CARGO WOULD HAVE A CONSIDERABLE POTENTIAL FOR DIVERSION OF U.S.-ORIGIN TRAFFIC, ESPECIALLY WHEAT, CORN AND SOYBEANS. THE MISSISSIPPI RIVER SYSTEM AND RAIL CONNECTIONS TO THE U.S. EAST COAST ARE ALREADY QUITE COMPETITIVE FOR THESE COMMODITIES. SUCH A DEVELOPMENT COULD REDUCE UTILIZATION OF THE SEAWAY, INCREASE THE UNIT COSTS FOR REMAINING CARGOES, AND INVOLVE SERIOUS ADVERSE IMPACTS ON GREAT LAKES CARRIERS AND GREAT LAKES PORTS. THUS, IN OUR TOLL DISCUSSIONS THE U.S. WILL BE SEEKING A BALANCE BETWEEN THE NEED TO KEEP THE SEAWAY ON A SELF-SUPPORTING BASIS AND THE NEED TO ASSURE ITS FULL UTILIZATION.

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INFO OCT-01 ISO-00 SS-15 SP-02 INR-07 NSC-05 L-03
EB-07 /052 W

-----100027Z 104043 /14

P 092224Z MAY 77

FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC PRIORITY 3409
INFO AMCONSUL WINNIPEG

UNCLAS SECTION 06 OF 06 OTTAWA 03653

53. WE RECOGNIZE CANADA'S WISH TO MOVE QUICKLY IN TOLL NEGOTIATIONS. ALL INTERESTED PARTIES MUST BE CONSULTED FULLY, BUT OUR AIM IS TO REACH AGREEMENT THIS YEAR.

54. LOOKING AT CANADIAN/AMERICAN RELATIONS NOW, YOU HAVE TO SAY THAT THERE'S NOT MUCH BUSTED. INDEED THERE'S A WARMTH, A SENSE OF COMMON PURPOSE, TWO-WAY COMMUNICATION THAT WE'VE SELDOM HAD.

55. BUT I THINK WE SHOULD BE AWARE THAT AS BOTH COUNTRIES FACE UP TO THE LIMITS THEY MUST OVERCOME TO GROW, WE ARE LIKELY TO DEMAND MORE OF THE RELATIONSHIP THAN EVER BEFORE, WHETHER IT'S JOINT ACTION ABROAD, MANAGEMENT OF

OUR CROSS-BORDER ENVIRONMENT, OR ENCOURAGEMENT OF OUR
TRADE AND FINANCIAL EXCHANGES.

56. NOBODY WHO'S SEEN US WORK TOGETHER BEFORE DOUBTS THAT
WE CAN ACHIEVE IT.

57. THANK YOU. ENDERS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
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Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
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Disposition Remarks:
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Original Handling Restrictions: n/a
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Review Exemptions: n/a
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